Book Section:

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37. Inequality, economic democracy and sustainability

Madeleine Power, Richard Wilkinson and Kate Pickett

It is often feared that the transition towards environmental sustainability will depress living standards and reduce quality of life. But research shows that reducing income differences between rich and poor within each of the developed countries will remove important obstacles to sustainability and improve the real quality of life. The evidence suggests that the complementarity between greater equality and sustainability may be served best by policies to advance economic democracy.

Though far from universally accepted, the evidence for the consequences of high carbon emissions is scientifically incontrovertible. In May 2013 rising carbon concentrations in the atmosphere surpassed 400 ppm – 40 per cent higher than before industrialization, and higher than humans have ever breathed before. In 2007 Hansen (head of NASA's Goddard Institute of Space Studies) estimated that if we are to keep the rise in global temperatures to no more than 2 °C, atmospheric concentrations of carbon will have to be reduced to 350 ppm.

Yet the voluntary pledges to reduce carbon emissions made by 185 countries for the UN Paris summit in 2015 will not achieve the reductions needed to keep global warming within this less dangerous limit of 2 °C. Estimates are that global temperatures will rise by almost 3 °C even if countries live up to their promises. But unlike international trade agreements, the pledges are unenforced and the reality may be more like 3 to 4 °C.

Nor is the environmental crisis limited to climate change. It also includes soil erosion, deforestation, water salinization, the systemic effects of insecticides and pesticides, toxic waste, species loss, acidification of the oceans, decline of fish stocks, hormone discharges into the water, global food insecurity and so on.

Moves towards sustainability are widely regarded as an unwelcome belt-tightening exercise which will increase costs and threaten living standards as we are pushed into living within environmental constraints.

But rich societies are inefficient producers of well-being: economies that maximize consumption and profit not only fail to maximize quality of life but are obstacles to sustainability. With the right policies we can combine sustainability with higher standards of real human well-being.

A key is to reduce inequality. There is a large body of evidence that most of the health and social problems that tend to be more common lower down the social ladder – including infant mortality, mental illness, violence, teenage births, imprisonment, well-being, obesity, educational attainment and social cohesion – are substantially worse in societies with bigger income differences between rich and poor (Wilkinson and Pickett, 2010). Problems associated with low social status within societies tend to be more common in societies with larger income differences. And although inequality harms the poor most, it leads to worse outcomes among the vast majority of the population.

Time-series evidence and multilevel models strongly suggest causal relationships running from inequality to worse outcomes, mediated by poorer social relations as reciprocity and community life give way to mistrust, status competition, status insecurity and increased violence (Zheng, 2012; Lillard et al., 2015).

As we have become aware of the environmental costs of economic activity, we have also become aware that there are diminishing returns to human well-being from economic growth. Economic growth has transformed the real quality of life over the past couple of centuries, but in rich countries it has largely finished its work. Improvements in life expectancy are no longer related to economic growth even in analyses of ten, twenty or forty-year periods.

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In the seventeen countries that it covers, the Genuine Progress Indicator has ceased to track growth. Similarly, measures of both adult and child well-being in the rich countries no longer respond to economic growth (Wilkinson and Pickett, 2010). Higher material standards continue to be needed in low-income countries where many people lack basic necessities, but in rich societies, having more and more of everything makes less and less difference.

But inequality continues to be a powerful driver of the desire for higher incomes. Community life atrophies in more unequal societies, and status anxieties increase across all income groups (Layte and Whelan, 2014). As a result, we worry more about the impression we create in the minds of others, and consumerism thrives as we try to communicate our self-worth to them. People in more unequal societies therefore spend more on status goods (Walasek and Brown, 2015), work longer hours, and get into debt more (Frank, 2007). Rather than being a reflection of a basic human acquisitiveness, consumerism is actually an alienated form of signalling, through which we try to maintain and communicate some sense of self-worth to each other (Frank, 2007; Dittmar et al., 2013). What the evidence suggests is that if we reduce inequality, we will also reduce consumerism.

Because consumerism and status competition are powerful drivers of our desire for ever higher incomes and our tendency to see sustainability as a threat to living standards, reducing inequality removes important obstacles to sustainability. And at the societal level, status competition is of course a zero sum game.

If the modern world is to move towards a sustainable way of life, it means acting as never before for the good of humanity as a whole. Greater equality makes an important contribution here too. Because it strengthens community life, people are two or three times as likely in equal societies to feel they can trust others (Wilkinson and Pickett, 2010). People in more equal societies are therefore more public spirited, have a stronger attachment to the common good and do more recycling. Business leaders give higher priority to environmental agreements, and more equal societies have lower carbon emissions per dollar of gross national product (GNP) (Wilkinson and Pickett, 2010).

We therefore particularly welcome UN Sustainable Development Goal (SDG) 10, which calls for the reduction of 'inequality within and among countries'.

Reducing income differences does not depend only on redistribution. It also means reducing differences before income transfers. We must undoubtedly tackle tax avoidance, end tax havens and make taxation more progressive, but there are two weaknesses to this approach. First, any progress on taxes and benefits can easily be reversed, and second, there is always the tendency for people to think that taxes are a kind of legalized theft, despite the fact that almost all production and wealth creation is a cooperative process. A much more fundamental approach to reducing inequality is to reduce differences in people's incomes before tax.

The rise in inequality since the 1980s is primarily the result of top incomes growing much faster than others. During the twentieth century, the decline in inequality between the 1930s and 1970s, and its subsequent rise, reflects a strong inverse relationship with the proportion of the labour force that is unionized (Gustafsson and Johansson, 1999). The tendency for income differences to widen in the absence of an effective labour movement reflects the loss of any constraint on top incomes. Part of the solution is to build effective new democratic constraints by embedding democracy into our economic institutions.

We need to increase employee representation on company boards and expand the share of the economy made up of mutuals, cooperatives, employee-owned companies and social enterprises. Around half the EU member countries have some – stronger or weaker – legal provision for employee representation on company boards. Countries with stronger legislation for employee representation have had smaller rises in inequality, and more democratic businesses tend to have smaller pay ratios among staff (Vitols, 2010). The Mondragon cooperatives in Spain employ about 80,000 people and have pay ratios of around 1:5 – rarely more than 1:9. This contrasts with ratios of 1:300 in many multinationals.

More democratic economic institutions have other social advantages. An employee buyout can turn a company from a piece of property into a community, so helping to offset the weakening of community life. It is also likely that less hierarchical structures improve the experience of work by enabling people to gain a sense of self-worth and to feel valued by colleagues.

The business case for more democratic companies is also strong. Companies that combine employee representation and participative management have higher productivity (Estrin et al., 1987). UK cooperatives have been outperforming the rest of the economy and the social enterprise sector has outperformed small and medium-sized businesses. Employee-owned companies have been creating new jobs faster than more traditional companies, and 76 per cent of the British public are in favour of board-level employee representation.

Economic democracy has other advantages too. Because investors with a long-term interest in companies have been largely replaced by computer-triggered short-term share trading, shareholder control has become an anachronism which should be replaced by the long-term interests of employees. Forms of economic democracy may also provide a partial response to the growing conflict between the public interest and the manipulative and anti-democratic power of multinationals. In *Lethal but Legal*, Freudenberg (2014) shows that profit-seeking in big corporations has become a major source of harm to public health. Similarly, Naomi Klein has shown how fossil-fuel companies have subverted responses to climate change. Where wage labour excludes employees from any ethical responsibility, more democratic models bring them centrally into decision-making at all levels. Perhaps as a result, evidence suggests that more democratic companies may perform better ethically (Weber et al., 2009).

Resurgent interest in the democratization of institutional structures needs to be turned into a publicly recognized political objective, advocated and defended by all progressive politicians as the next major step in human emancipation. We need to create a popular understanding that this is part of a gradual transition to high levels of sustainable well-being.

To this end, all but the smallest companies should be required to have employee representatives on company boards and remuneration committees. The proportion of employee representatives should be higher in larger companies and should increase over time, moving eventually to majority control. This could be achieved by legislation requiring that a small proportion of shares be transferred each year to employee-controlled trusts. Before these legal requirements enter force, employee representation could be made a condition of gaining public sector contracts and lower corporation tax rates.

Governments should also provide tax incentives for more democratic companies, and loans for employee buyouts. The widespread ignorance of democratic models among professional legal and financial advisers means that governments should promote and support routes to employee ownership. Governments should also provide training and advice in areas such as management, business law, accountancy and economics for employees of cooperative and employee-owned companies. The constitutions of democratic businesses should prevent employees from selling their companies back to external shareholders. Finally, we also need internet portals to help people shop from democratic businesses displaying a 'democratic company' logo such as Fair Trade.

Not to plan changes as sweeping as these may mean accepting that we will be defeated by climate change. And the longer we delay, the more sudden, difficult and traumatic the transition to low-carbon economies will be.

But the transition to sustainability could instead be a transition to a better society for all of us. By reducing inequality, we could make dramatic improvements in the social environment, strengthening community life and reducing a wide range of health and social problems.

A large body of research shows that the quality of social relationships is a crucial determinant of health and happiness. Reductions in status insecurity (Layte and Whelan, 2014) and consumerism would lead more people to use increases in productivity to create more leisure time rather than to increase consumption. As a means to achieving these ends, a transition to economic democracy would transform the experience of work, embed equality more deeply in society, and begin to tackle the growing power of multinational corporations to concentrate wealth and undermine democracy.

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Note: A full bibliography can be found in R. Wilkinson and K. Pickett, *A Convenient Truth* (Fabian Society and Friedrich Ebert Stiftung, 2014), *www.fabians.org.uk/publications/a-convenient-truth/*

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